

Media- & Financial Analyst-Conference 2019

Zehnder Group Review 2018

Hans-Peter Zehnder, Chairman of the Board of Directors

Matthias Huenerwadel, CEO

René Grieder, CFO

Zurich, 27 February 2019

zehnder
always the
best climate

Agenda

Business Review 2018

Effective action

Expansion of the
ventilation business,
optimisations
in the radiator
business

New CEO

Financial Review 2018

Increase in sales due
to ventilation business

Further improvements
in the operating result

Ongoing operational
measures to attain an
EBIT margin of 8%

Strategy & Outlook

Growth strategy for
ventilation business,
harvest strategy in the
area of radiators

Further focus on
innovation, digitisation
and new products

Targeted improvement
in the EBIT in 2019

Results improved again.



Business 2018

Increase in sales

- Sales of 601.8 MEUR (2017: 582.4 MEUR)
- Ventilation business as growth driver
- Increase of 3%; organic +4%

Improvements in the operating result

- EBIT of 31.1 MEUR (2017: 23.5 MEUR)
- Increase of 32%
- EBIT margin of 5.2% (2017: 4.0%)

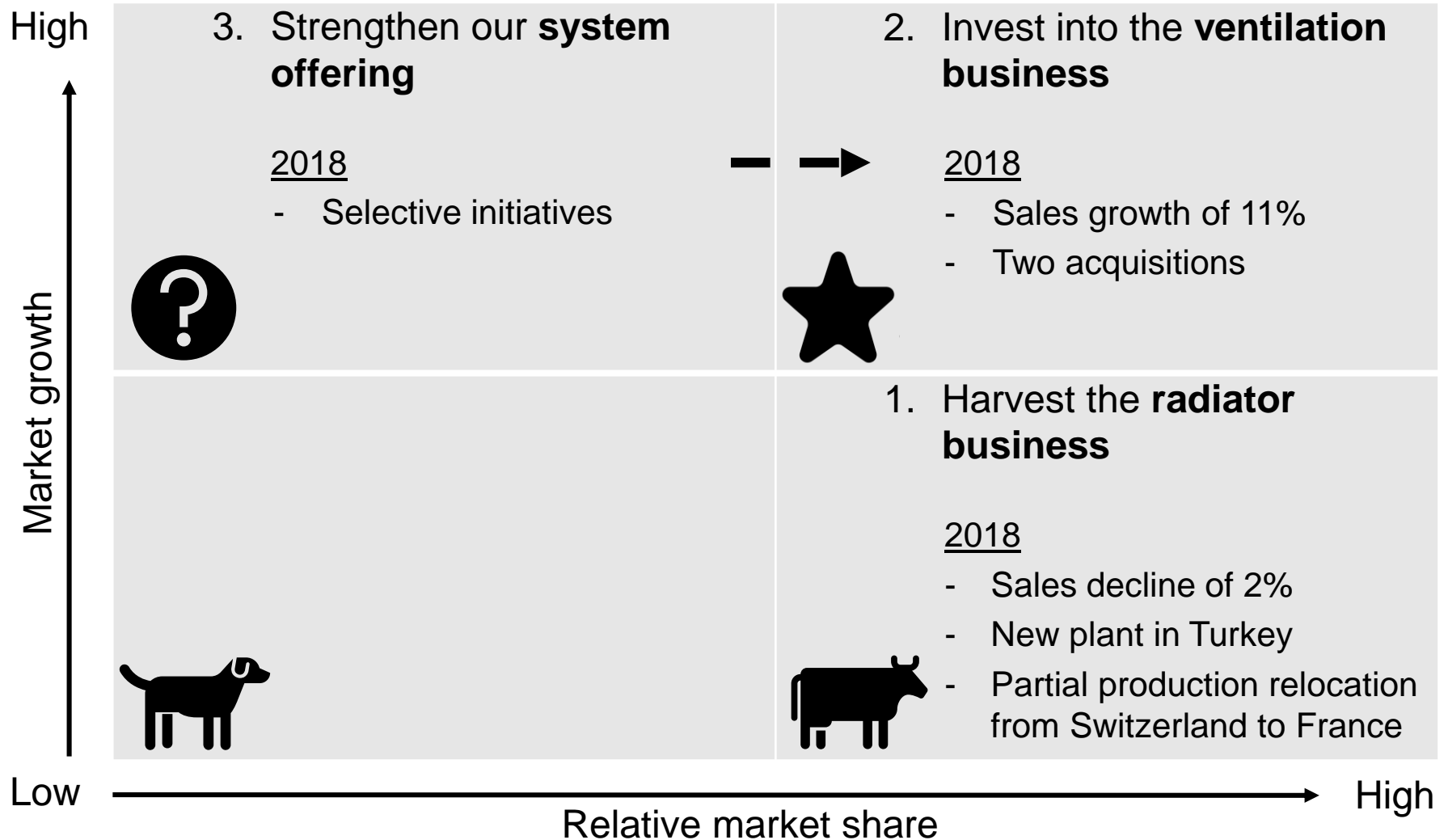
Rise in net income

- Rise in net income due to increases in sales and efficiency
- Net income of 24.5 MEUR (2017: 16.5 MEUR)
- Operating cash flow in % of sales up to 5.1% (2017: 3.2%)
- Higher return on capital employed (ROCE) of 9.1% (2017: 7.3%)

Growth strategy for ventilation business, harvest strategy in the area of radiators



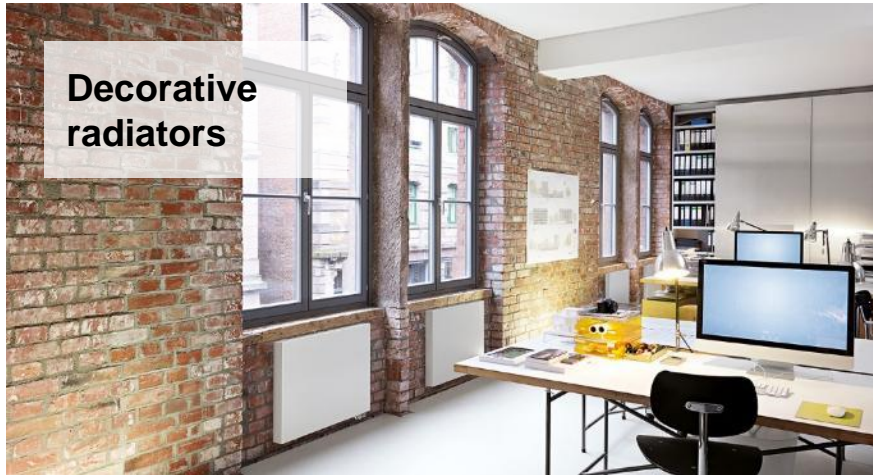
Business 2018



Production of radiators in Europe optimised



Business 2018



**Decorative
radiators**



**Heating and
cooling
ceiling
systems**

- Opening of new bathroom radiator factory in Manisa (Turkey)
- Investment in new laser welding and cutting machines in Lahr (Germany) and Bolesławiec (Poland)
- Preparation of relocation of production of radiators for the British market from Gränichen (Switzerland) to Vaux-Andigny (France)
- Suspension of production and sales of the Zehnder Zmart polymer radiator
- Real progress in the area of heating and cooling ceiling systems

We have expanded our ventilation business in Europe.



Business 2018

- ComfoAir Q ventilation unit as primary growth driver in Europe
- Expansion of geographical footprint and product range through the takeover of InteliVENT OÜ in Estonia and Enervent in Finland
- Positive contribution to the Group's figures in 2018 by the Clean Air Solutions product line



Ventilation sales in China increased by 21%.



Business 2018

- Enlarged network of distributors (>400 retail stores)
- Launch of new ventilation units including the ERV-D heat recovery series and the FA-V400 cabinet unit, both sold through the retail channel
- Land purchase for a new factory for ventilation units in Pinghu, around 100 km south-west of Shanghai
- Further decline of radiator business, with the effects particularly felt in the radiant ceiling panel business



- Turnaround of the unprofitable Buffalo, NY (USA) plant not yet achieved
- Write-down of inventory and equipment at the Buffalo plant
- Acquisition of part of NuClimate Air Systems, Inc. to help us turn around the Buffalo operation
- Investments in a new production line in Vancouver (Canada) for a positive impact on profitability over the long term

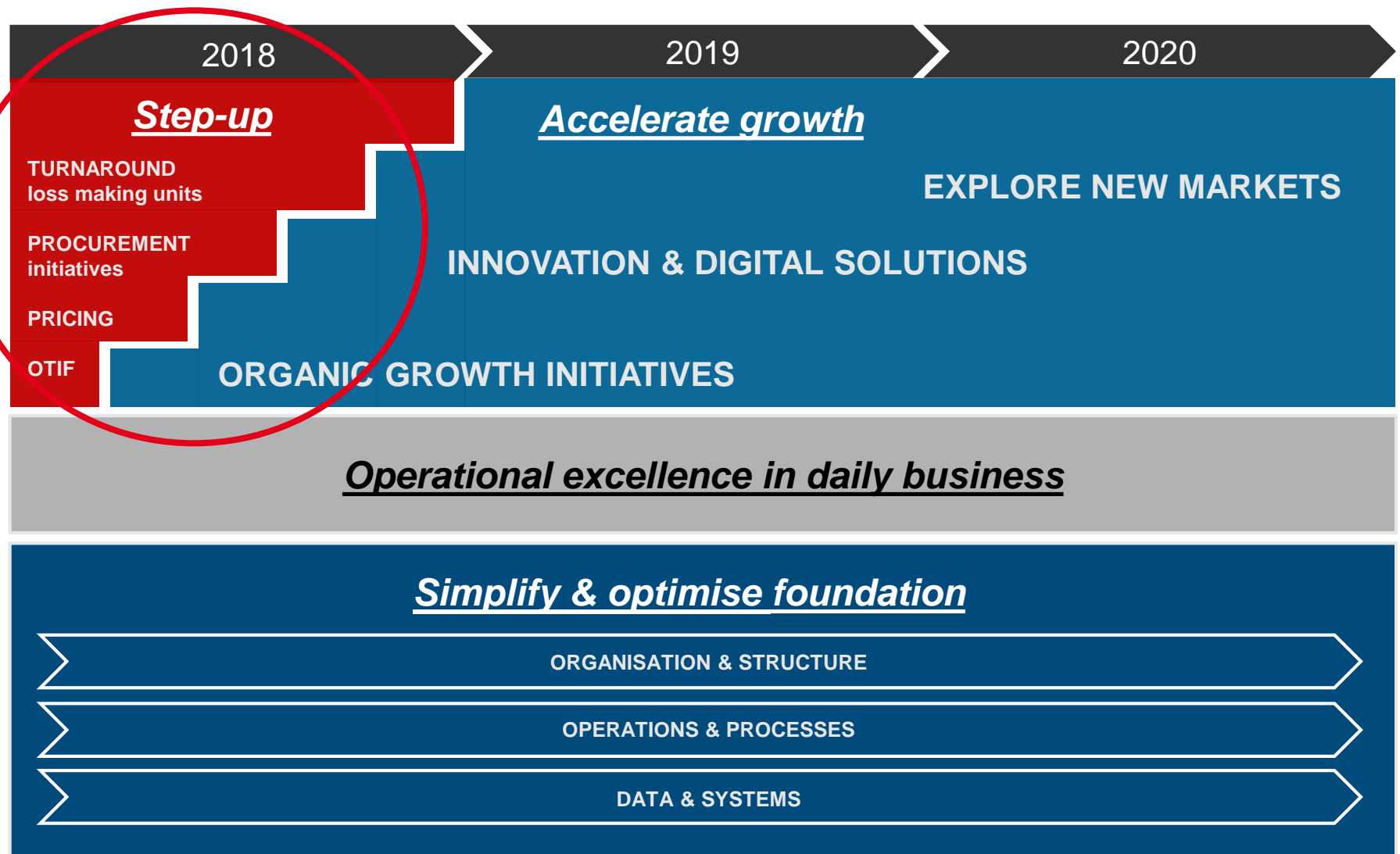


Chilled beams by NuClimate Air Systems, Inc.

Step-up measures prioritised in 2018



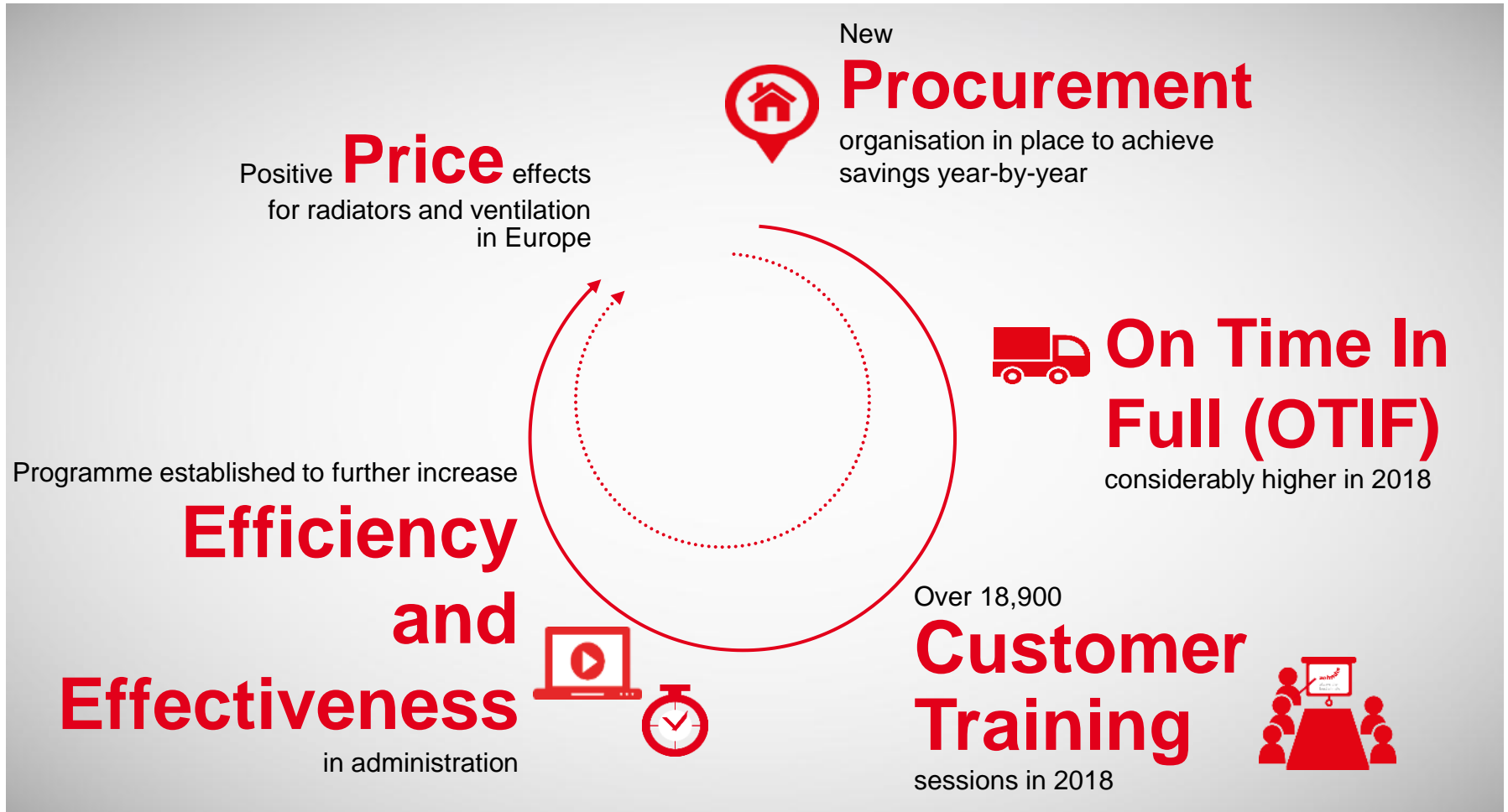
Business 2018



2018: focus on operational excellence and customers



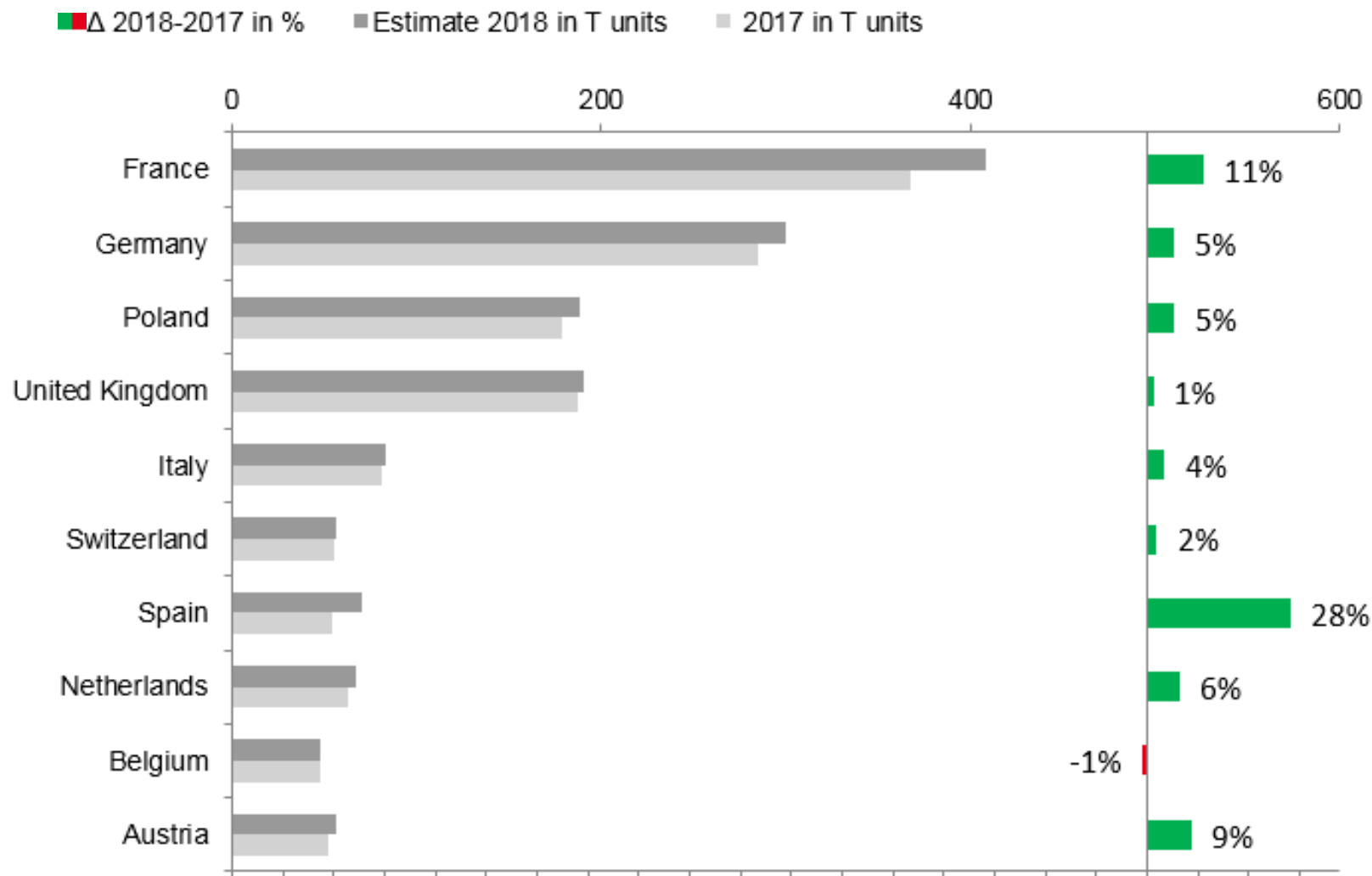
Business 2018



Construction market: Growth of new residential buildings in Europe



Business 2018



We had some reasons to celebrate in 2018.



Business 2018



Launch of our new bathroom radiator factory in Manisa (Turkey)



15-year anniversary in Russia



20-year anniversary in Bolesławiec (Poland)



New Specification Centre in London (UK)

Matthias Huenerwadel became CEO.



Business 2018

- Handover per 1 January 2019 – including the responsibility for the China & North America segment
- Future focus on role as Chairman of the Board of Directors



Hans-Peter Zehnder, Chairman of the Board of Directors and
Matthias Huenerwadel, Chairman of the Group Executive Committee, CEO

Additional members of the Board of Directors with strong industry knowledge and expertise in finance



Business 2018

The Board of Directors will propose the election of Daniel Frutig and Ivo Wechsler as additional members at the Annual General Meeting in March 2019.

Daniel Frutig

(born 1962, Swiss citizen)

Member of the Boards of Directors of the Starrag Group and Eugster/Frismag AG



Daniel Frutig

Ivo Wechsler

(born 1969, Swiss citizen)

CFO of HUBER+SUHNER since April 2010



Ivo Wechsler

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Targeted improvement
in the EBIT in 2019

Further improvements in the operating result and net income



Financials 2018

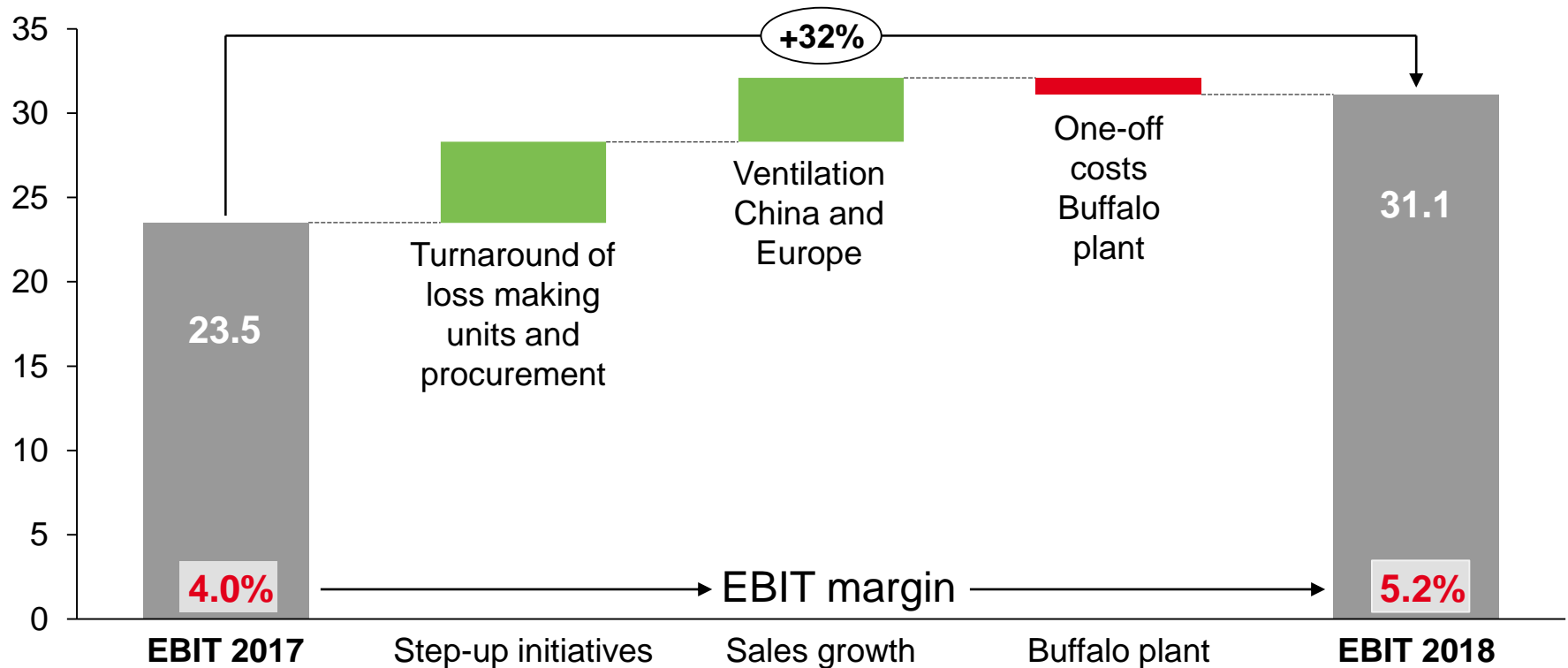
MEUR	2017	2018	Δ in %
Sales	582.4	601.8	+3
EBITDA	45.7	53.2	+16
EBITDA margin (in %)	7.8	8.8	
EBIT	23.5	31.1	+32
EBIT margin (in %)	4.0	5.2	
Net profit	16.5	24.5	+48
Net profit margin (in %)	2.8	4.1	
Cash flow from operating activities	18.5	30.5	+65
Cash flow yield (in %)	3.2	5.1	
Return on capital employed (ROCE; in %)	7.3	9.1	

Higher EBIT as a result of growth in the field of ventilation and the effects of the Step-up programme



Financials 2018

MEUR



EBIT margin in HY2 2018 further increased to 5.5%, however, behind strong HY2 2017 due to one-off costs of about 1 MEUR at our Buffalo, NY (USA) plant.



Financials 2018

MEUR	2017 H1	2017 H2	2018 H1	2018 H2	Δ in % H1	Δ in % H2
Radiators	157.2	173.7	151.5	171.4	-4	-1
Ventilation	123.5	128.1	139.1	139.8	+13	+9
Sales	280.6	301.8	290.6	311.2	+4	+3
EBIT	5.6	18.0	14.1	17.0	+153	-5
EBIT margin (in %)	2.0	5.9	4.9	5.5		

- Ventilation with strong sales growth in both semesters, however, also due to the Enervent acquisition in the second half of the year
- EBIT margin level increased from 4.9% in the first six months to 5.5% in the second semester, resulting in an EBIT margin of 5.2% for the year as a whole (2017: 4.0%).

Ventilation business now accounts for 46% of total sales.

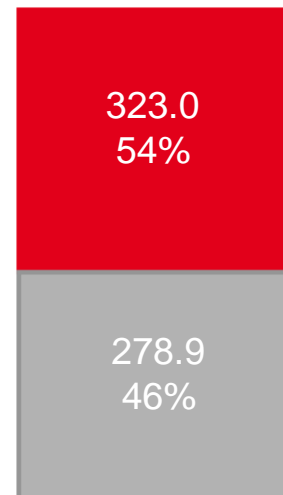


Financials 2018

Country ranking 2018

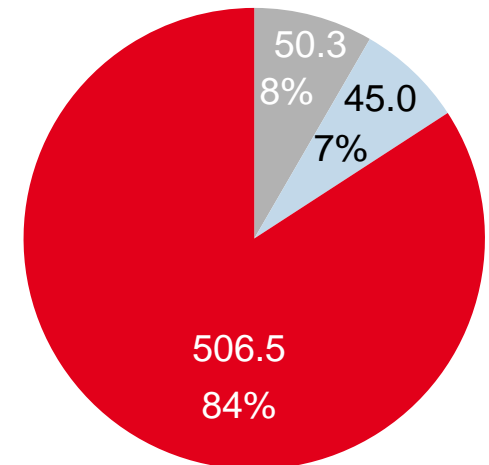
1.	Germany	
2.	France	
3.	United Kingdom	▲
4.	Switzerland	▼
5.	China	
6.	United States	
7.	Netherlands	
8.	Italy	
9.	Belgium	
10.	Poland	▲

Sales by area in MEUR



■ Radiators
■ Ventilation

Sales by region in MEUR



■ China
■ North America
■ Europe

The top 10 markets account for 89% of the total turnover.

Sideways trends for key markets of Germany, France, the United Kingdom and Switzerland



Financials 2018

Sales trend in 2018 vs. prior year in local currency	Radiators	Ventilation	Total
Germany	↓	→	→
France	↓	↑	→
United Kingdom	↓	↑	→
Switzerland	↑	→	→
China	↓	↑	↑
United States	↑	↓	↑
Netherlands	↑	↑	↑
Italy	↓	↑	→
Belgium	↓	↑	↑
Poland	↑	↑	↑

In Europe, the sales growth in the ventilation business compensated for the decline in the radiator business.



Financials 2018

MEUR	2017	2018	Δ in %	Δ in %*
Radiators	281.7	274.9	-2	-2
Ventilation	209.4	231.7	+11	+9
Total Segment Europe	491.1	506.5	+3	+3

* Organic

- The warm temperatures in autumn had a negative effect on radiator sales.
- The ComfoAir Q ventilation unit was the primary growth driver.
- The Estonian ventilation company InteliVENT OÜ and the Finnish ventilation company Enervent contributed a total of 3% to growth in the European ventilation business.
- Ventilation sales accounted for 46% of total sales in Europe.

China: Further growth in the ventilation business and decrease in the radiator business



Financials 2018

MEUR	2017	2018	Δ in %	Δ in %*
Radiators	13.9	11.6	-17	-15
Ventilation	31.9	38.7	+21	+24
Total China	45.8	50.3	+10	+13

* Organic

- Increase in ventilation sales thanks to the project business
- Decline for the retail business in 2018
- Decrease for the radiator sales due to lack of major projects involving radiant ceiling panels
- Ventilation sales accounted for 77% of total sales in China.

North America: Slight growth in local currency



Financials 2018

MEUR	2017	2018	Δ in %	Δ in %*
Radiators	35.2	36.5	+4	+8
Ventilation	10.3	8.5	-18	-13
Total North America	45.5	45.0	-1	+3

* Organic

- Positive trend for radiators in the second half of 2018
- The acquisition of NuClimate Air Systems, Inc. contributed 1% to growth in North America.
- Ventilation sales continued to decline and only accounted for around 20% of total sales in North America.

Solid balance sheet with a high equity ratio of 64% and net liquidity of 21.3 MEUR




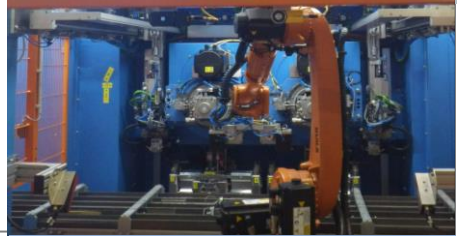

Financials 2018

MEUR	2017	2018	Δ in %
Current assets	213.3	233.1	+9
Non-current assets	206.5	207.8	+1
Total assets	419.8	440.9	+5
Current liabilities	117.3	128.9	+10
Long-term liabilities	31.3	28.9	-8
Equity	271.2	283.1	+4
Total liabilities & equity	419.8	440.9	+5
Net liquidity	27.5	21.3	-23
Equity ratio	65%	64%	-1

Main investments 2018 with focus on increased efficiency for radiator production



Financials 2018

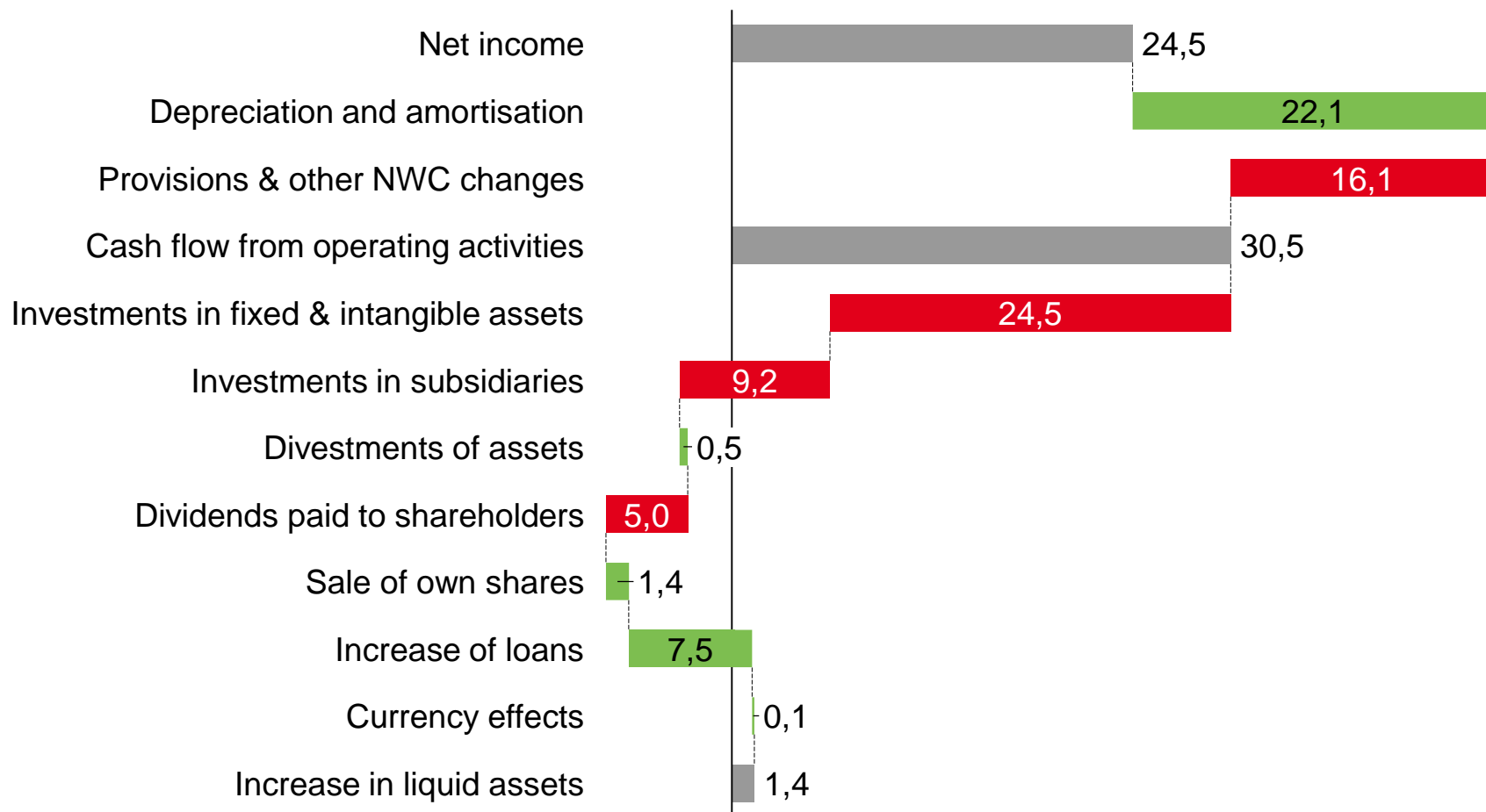
Project	Reasons	Investment in 2018	
New factory for bathroom radiators in Manisa (Turkey)	<ul style="list-style-type: none"> ▪ Higher capacity ▪ Previous factory in an old, rented building 	<ul style="list-style-type: none"> ▪ 9.0 MEUR ▪ New building and machinery 	
Automation of radiator factory in Lahr (Germany)	<ul style="list-style-type: none"> ▪ Increased efficiency 	<ul style="list-style-type: none"> ▪ 3.0 MEUR ▪ New laser welding machine 	
New factory for ventilation units in Pinghu (China)	<ul style="list-style-type: none"> ▪ Growth in the ventilation business ▪ Current production in a rented building 	<ul style="list-style-type: none"> ▪ 1.1 MEUR ▪ Plot of land 	

Cash flow from operating activities increased to 30.5 MEUR (2017: 18.5 MEUR) or 5.1% of sales.



Financials 2018

MEUR



Workforce increase due to the acquisitions in Estonia and Finland and the expansion of sales activities for ventilation in China and Europe



Financials 2018

FTE closing	2017	2018	Variance
Europe	2,589	2,642	+53
China	460	467	+7
North America	305	303	-2
China & North America	765	770	+5
Total FTE	3,353	3,412	+59

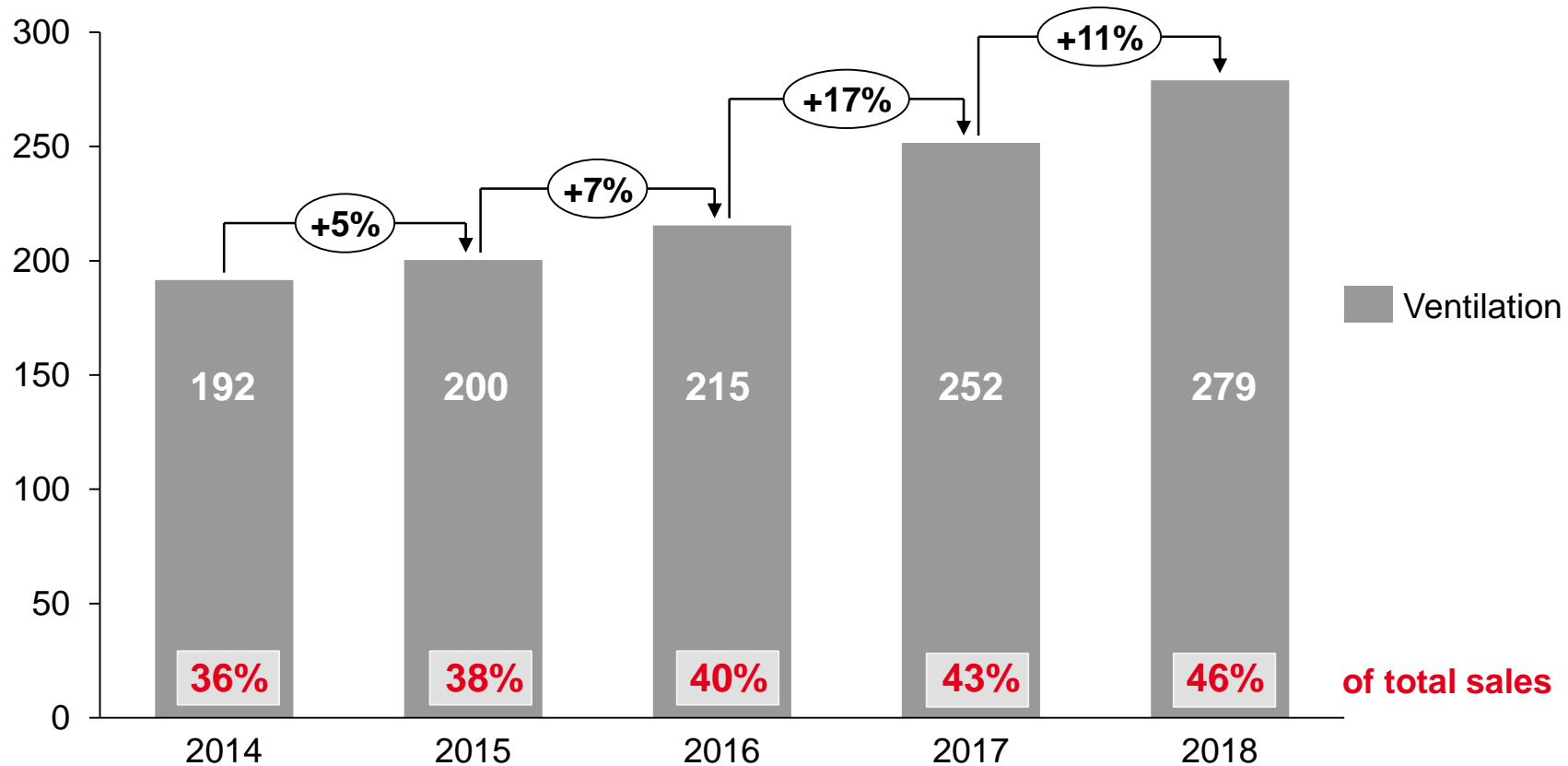
- Personnel costs of 194.7 MEUR are 1% below the previous year's level and 32% of sales (2017: 196.6 MEUR, 34%).

Double-digit sales growth for ventilation business in the past two years



Financials 2018

MEUR

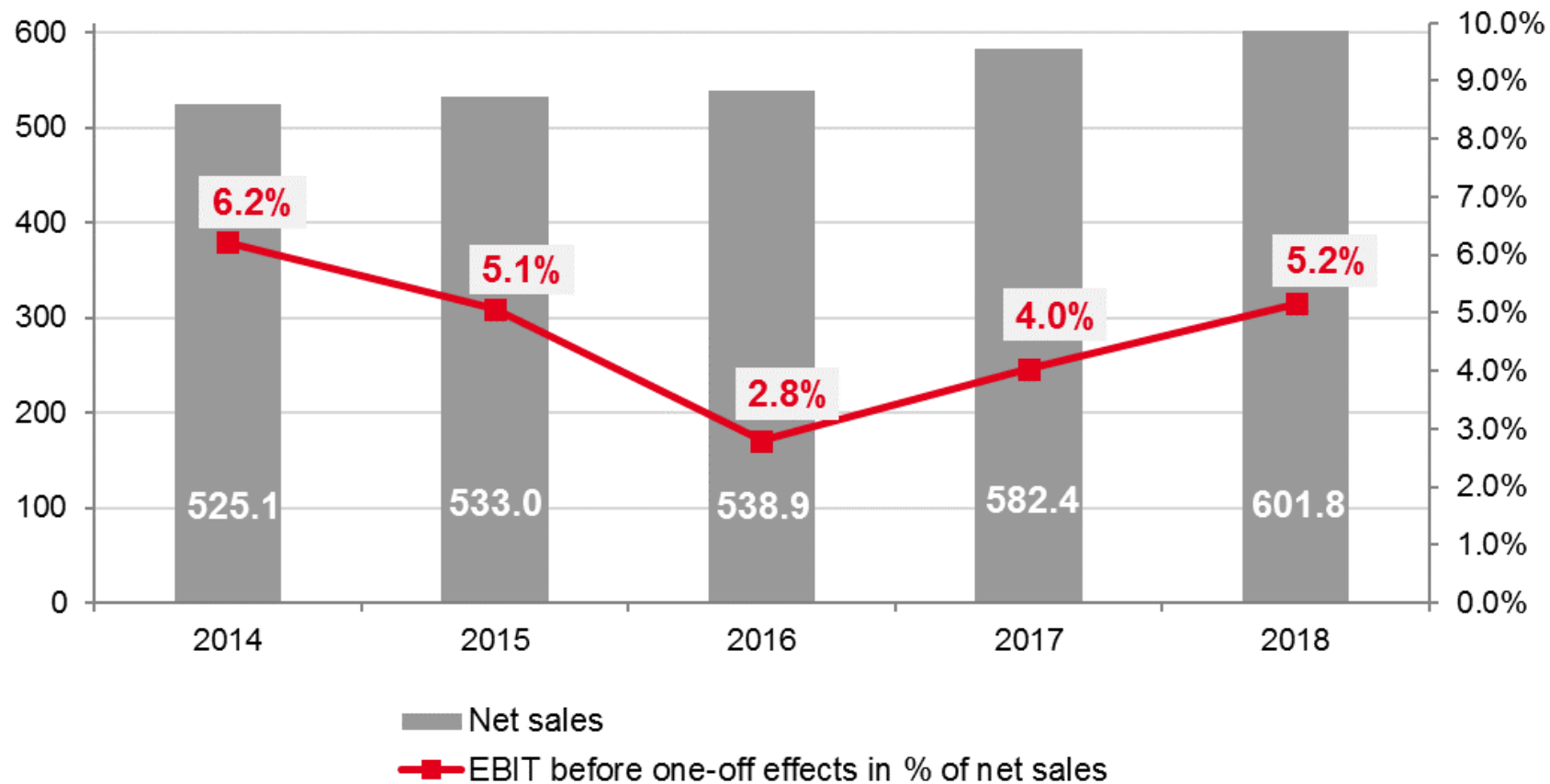


Implemented operational measures led to improved profitability in 2018.



Financials 2018

MEUR

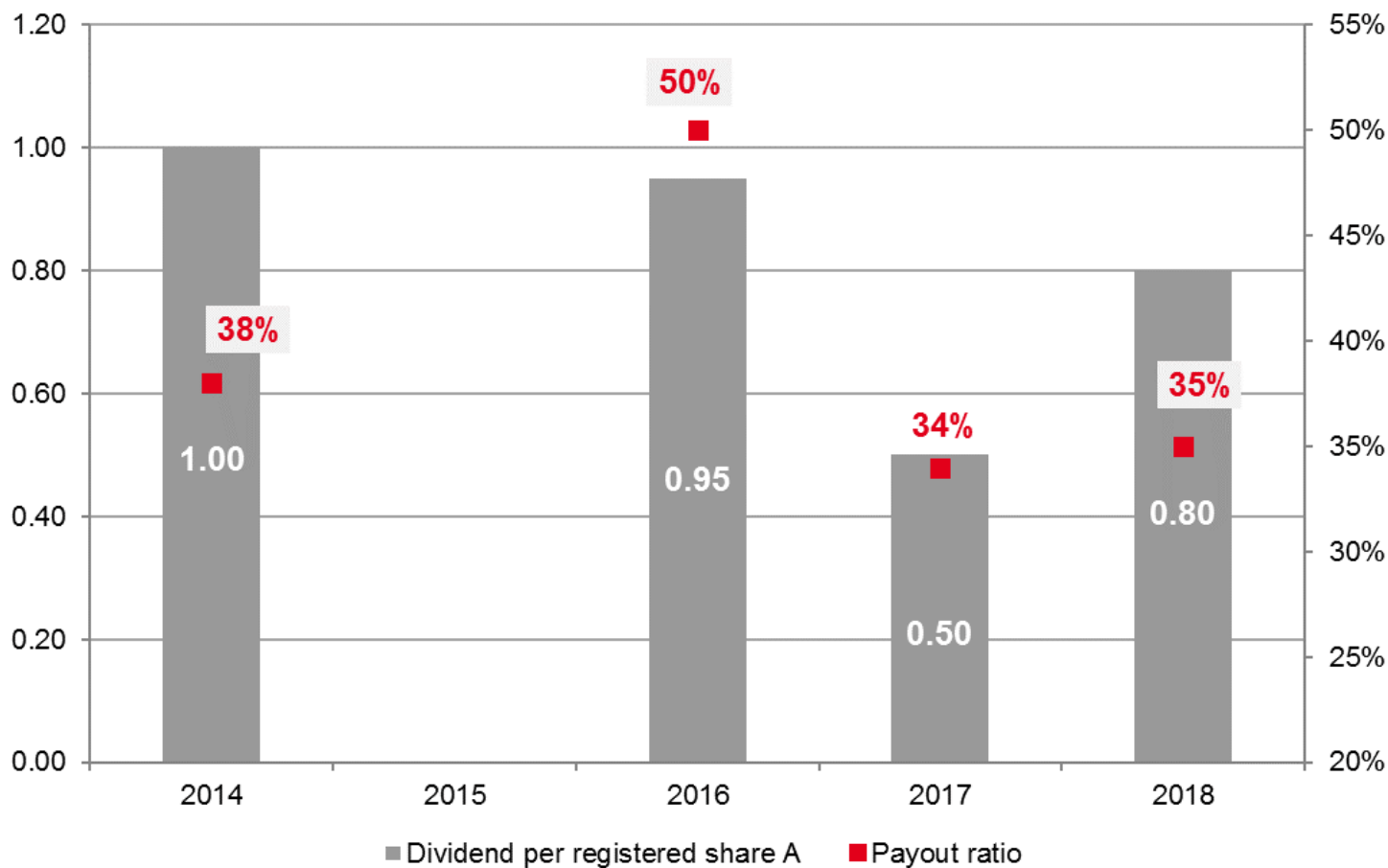


Proposed dividend of CHF 0.80 per share (ZEHN; payout ratio of 35%)



Financials 2018

CHF



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100-day review of the new CEO



Strategy & Outlook

Tasks

- Meetings with all relevant stakeholders
- Visit of core markets, attendance of trade shows and meetings with key customers
- Product trainings and management meetings

Findings

- Committed and capable teams
- Solid market positions, superior range of products and excellent reputation in the markets
- Established market-segment-product strategies and operational excellence initiatives

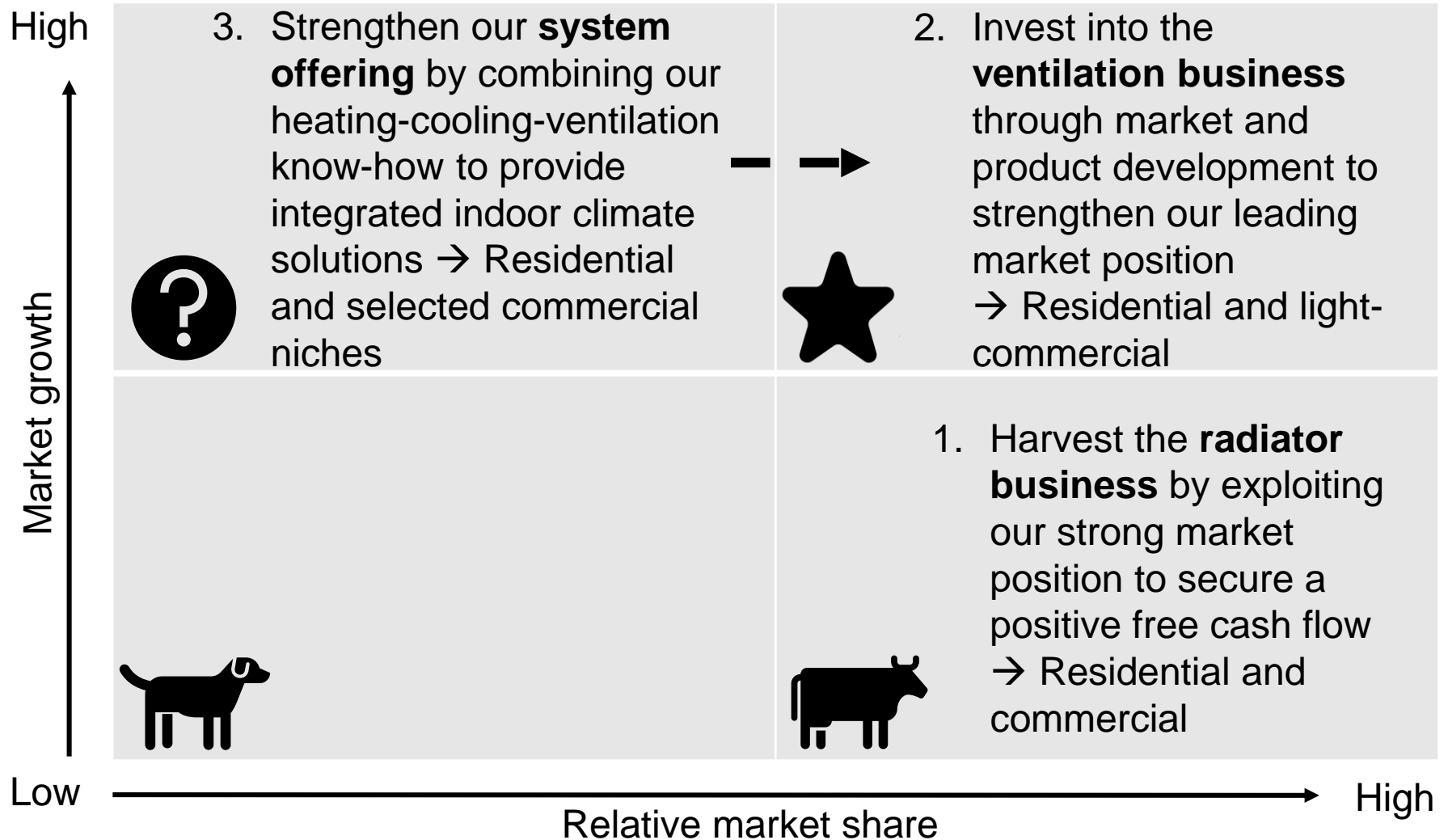
Conclusions

- Focus is key; continued execution of defined and confirmed strategy and initiatives

Our growth strategy for the ventilation business and harvest strategy in the area of radiators remain valid.



Strategy & Outlook



Our main focus



Strategy & Outlook

Region	<u>Ventilation</u> GROWTH	<u>System</u> FUTURE	<u>Radiators</u> HARVESTING
<u>Europe</u> LEADING IN VENTILATION	<ul style="list-style-type: none"> ▪ Organic growth through innovation ▪ Growth through add-on acquisitions ▪ Further establishment of Clean Air Solutions activities 	<ul style="list-style-type: none"> ▪ Ventilation ▪ Heat and cool distribution ▪ Indoor climate 	<ul style="list-style-type: none"> ▪ Operational excellence ▪ Optimisation of portfolio, productivity and footprint ▪ Selective expansion of heating and cooling systems
<u>China</u> FURTHER GROWTH IN VENTILATION	<ul style="list-style-type: none"> ▪ Extension of key account base in the project business ▪ Expansion of footprint in retail business ▪ Innovative edge 	<ul style="list-style-type: none"> ▪ Ventilation ▪ Heat and cool distribution ▪ Air purifying 	<ul style="list-style-type: none"> ▪ Exploitation of project business opportunities
<u>North America</u> BUILDING A FOUNDATION	<ul style="list-style-type: none"> ▪ Alignment of activities in promising segments ▪ Localisation of product range 	<ul style="list-style-type: none"> ▪ n/a 	<ul style="list-style-type: none"> ▪ Turnaround of Buffalo, NY (USA) plant ▪ Profitable niches ▪ Competitive local supply chain

We focus on organic growth, but continuously monitor potential acquisition opportunities.



Strategy & Outlook

Organic growth

- **Product development capabilities**
- **Innovative solutions to address long-term trends and needs**
(health, digitisation, climate change, urbanisation)
- **Strengthening of sales and service coverage**
- **Expansion of Clean Air Solutions activities**

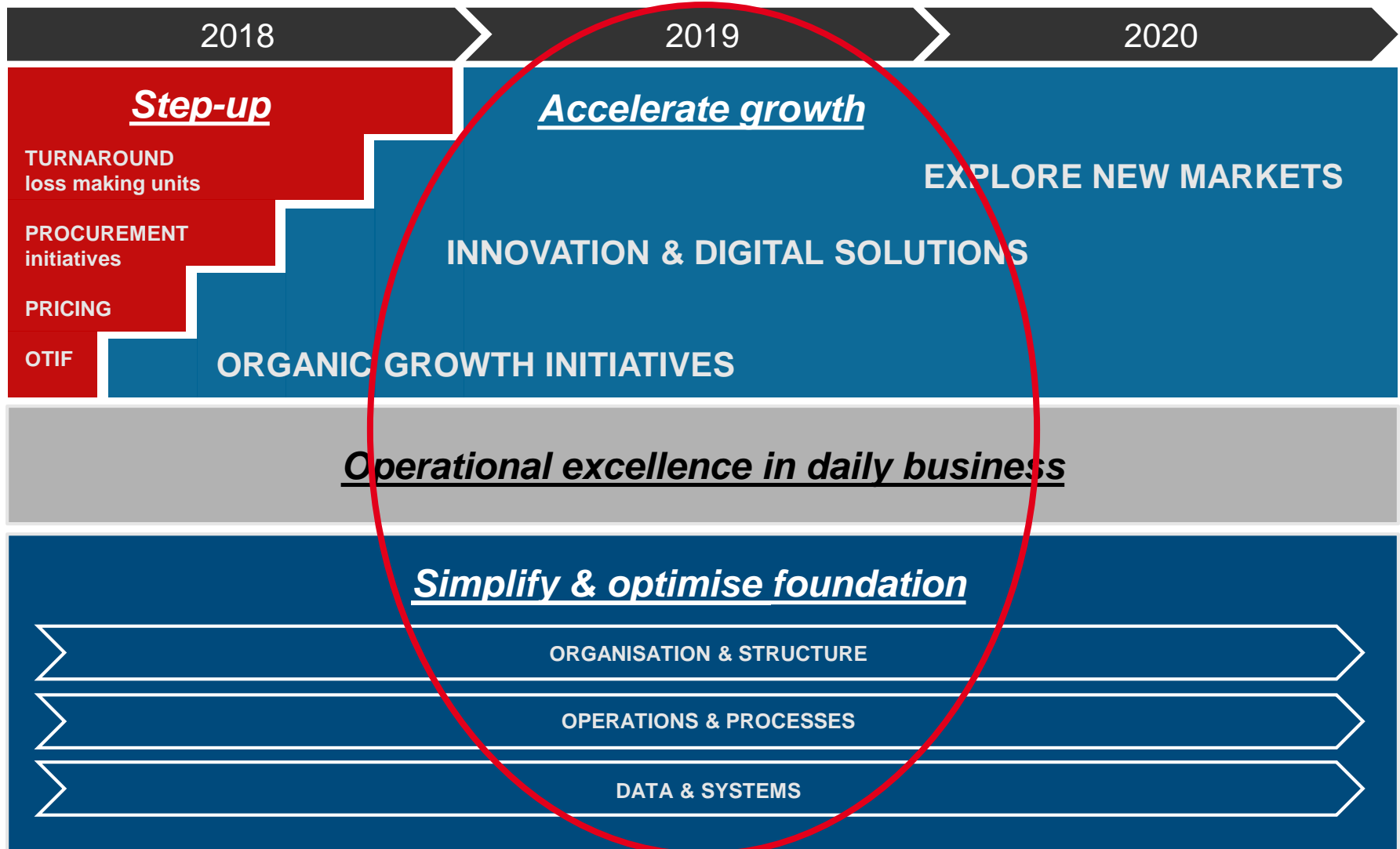
Acquisition opportunities

- **Portfolio completion**
- **Strengthening of system and technology offering, e.g.**
 - Air treatment
 - Heat / cool generation
 - Controls
- **Market presence and/or geographic coverage**

Accelerate growth: Stage two of the Road Map 2018-2020



Strategy & Outlook



We want to sharpen our focus on digital transformation.



Strategy & Outlook

- **Install organisational structure**
Central coordination by core team to drive digital transformation
- **Enhance operational backbone**
 - Continuous upgrade of SAP
 - New CRM
 - Harmonised PIM
- **Generate digital customer engagement**
 - B2B & B2C solutions (i.e. web shop)
 - Marketing automation
 - Service offer
- **Digitised solutions / smart home**
 - Connected products on cloud-based IoT platform
 - Value proposition through connected services



Improving operating result

- Resources and efforts geared towards attaining an EBIT margin of 8% in the medium term
- Consistent and continuous follow-up of operational measures
- Focus on execution of relevant initiatives along defined strategy

Uncertainties

- Brexit
- Trade disputes
- Chinese property market
- Economic slowdown in key markets

Summary

Highlights 2018

- Sales over 600 MEUR
- Improved margins
- Further improvement in operating results

Outlook 2019

Zehnder 2020+

An attractive investment case:

- Well positioned to capture long-term megatrends
- Leading positions in key markets for ventilation and radiators plus system offering
- Consistently high investments in new products and solutions to strengthen innovation leadership
- Strong anchor shareholder, no knee-jerk reactions
- Strong balance sheet to facilitate history of reliable dividends

Mid-term targets

Mid-term targets confirmed:

- Sales CAGR of 5%
- EBIT margin of >8%
- Double-digit ROCE

Questions & answers

Thank you for your attention.

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